

"(2) AMOUNTS.—The earned income amount and the phase-out amount shall be determined as follows:

	In the case of an eligible individual with:	The earned income amount is:	The phase-out amount is:
1	qualifying child..	\$6,330	\$11,610
2	or more qualifying children.	\$8,890	\$11,610
	No qualifying children	\$4,220	\$ 5,280.

(b) DEFINITION OF DISQUALIFIED INCOME.—Paragraph (2) of section 32(i) of such Code (defining disqualified income) is amended by striking "and" at the end of subparagraph (B), by striking the period at the end of subparagraph (C) and inserting a comma, and by adding at the end the following new subparagraphs:

- "(D) the capital gain net income (as defined in section 1222) of the taxpayer for such taxable year, and
- "(E) the excess (if any) of—
  - "(i) the aggregate income from all passive activities for the taxable year (determined without regard to any amount included in earned income under section (c)(2) or described in a preceding subparagraph), over
  - "(ii) the aggregate losses from all passive activities for the taxable year (as so determined).

For purposes of subparagraph (E), the term "passive activity" has the meaning given such term by section 469.

26 USC 32 note. (c) EFFECTIVE DATES.—

3 IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 1995.

4 ADVANCE PAYMENT INDIVIDUALS.—In the case of any individual who on or before June 26, 1996, has in effect an earned income eligibility certificate for the individual's taxable year beginning in 1996, the amendments made by this section shall apply to taxable years beginning after December 31, 1996.

#### SEC. 910. MODIFICATION OF ADJUSTED GROSS INCOME DEFINITION FOR EARNED INCOME CREDIT.

5 IN GENERAL.—Subsections (a)(2)(B), (c)(l)(C), and (f)(2)(B) of section 32 of the Internal Revenue Code of 1986 are each amended by striking "adjusted gross income" each place it appears and inserting "modified adjusted gross income".

6 MODIFIED ADJUSTED GROSS INCOME DEFINED.—Section 32(c) of such Code (relating to definitions and special rules) is amended

by adding at the end the following new paragraph:

"(5) MODIFIED ADJUSTED GROSS INCOME.—

"(A) IN GENERAL.—The term "modified adjusted gross income" means adjusted gross income determined without regard to the amounts described in subparagraph (B).

"(B) CERTAIN AMOUNTS DISREGARDED.—An amount is described in this subparagraph if it is—

"(i) the amount of losses from sales or exchanges of capital assets in excess of gains from such sales